



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

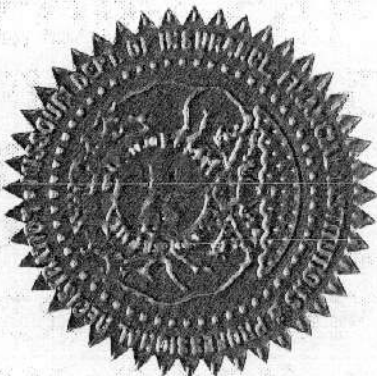
RE: Examination Report of Preferred Physicians Medical Risk Retention Group, Inc. as of
December 31, 2006

ORDER

After full consideration and review of the report of the financial examination of Preferred Physicians Medical Risk Retention Group, Inc. for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Preferred Physicians Medical Risk Retention Group, Inc., to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this December 13, 2007.



DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF
ASSOCIATION FINANCIAL EXAMINATION
**PREFERRED PHYSICIANS MEDICAL
RISK RETENTION GROUP, INC.**

AS OF
DECEMBER 31, 2006



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL REGULATION AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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Shawnee Mission, Kansas
August 30, 2007

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, (E) Financial Condition Committee, NAIC

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Preferred Physicians Medical Risk Retention Group, Inc.

hereinafter referred to as such, as the "Company" or as "Preferred Physicians." Its administrative office is located at 9000 West 67th Street, Shawnee Mission, Kansas, 66202, telephone number (913) 262-2585. This examination began on June 4, 2007 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Preferred Physicians Medical Risk Retention Group, Inc. was made as of December 31, 2003 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2004 through December 31, 2006 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners also relied on information provided by the Company's independent auditor, McGladrey & Pullen LLP, of Omaha, Nebraska. Such reliance included, but was not limited to, investment confirmations, fraud-risk assessments, and internal control evaluations.

Comments-Previous Examination

Listed below are comments and recommendations of the previous examination report dated as of December 31, 2003, the Company's response, and findings in the current examination.

Intercompany Transactions

Comment: The Company was directed to restate or amend its Cost Allocation Agreement or enter into a new service/management agreement reflecting the actual practices of the Company. The agreement should be filed with the DIFP for prior approval as required by Section 382.195 RSMo (Transactions within a holding company system).

Company Response: The Company has developed a new Administrative Services Agreement to cover shared costs and their allocation among the affiliated companies. This agreement has been filed with the DIFP.

Current Findings: The Company filed an Intercompany Services and Cost Allocation Agreement with the DIFP in April of 2005.

Fidelity Bond

Comment: The Company should increase its fidelity bond coverage to meet the suggested NAIC amounts of between \$700,000 and \$800,000 in coverage.

Company Response: Through endorsement to the fidelity bond coverage on June 14, 2004, coverage limits were increased to \$700,000. In addition, the Company's parent, PPM Services, Inc. and an affiliate, PPM Information Solutions, Inc. are no longer named insureds under the Company's fidelity bond and have separate coverage.

Current Findings: The Company's fidelity bond coverage was found to meet the suggested NAIC coverage limits.

Custodial Agreement

Comment: The Company should amend or restate its custodial agreement with US Bank so that it reflects the current name of the Company and of the custodian. In addition, the Company should ensure the amended/restated agreement contains all of the NAIC specified safeguard provisions.

Company Response: The Company has been working with US Bank to obtain a new custodial agreement.

Current Findings: The Company obtained a new custodial agreement with US Bank effective August 23, 2007 which contained the NAIC specified safeguards.

HISTORY

General

Preferred Physicians Mutual Risk Retention Group, Inc. was incorporated on June 17, 1987 and commenced business on June 22, 1987 as a mutual property and casualty insurance company under the provisions of Missouri Law at Chapter 379 (Insurance other than life). Pursuant to a Plan of Conversion and Reorganization, approved by the Company's policyholders, effective March 14, 1996, the Company was converted from a mutual company to a stock company. The Company changed its name to Preferred Physicians Medical Risk Retention Group, Inc. on the same date. Simultaneously, the Company issued 5,000 shares of common stock, which were acquired by PPM Services, Inc., (PPM Services) a holding company. Ownership of PPM Services was distributed on a pro rata basis per policy to Preferred Physicians policyholders of record on March 14, 1996.

The Company issued an additional 500,000 shares in July 1996 and 295,000 shares in August 1996 to PPM Services. Since Preferred Physicians' policyholders are the sole owners of PPM Services, the Company remains qualified as a risk retention group.

Capital Stock

As of December 31, 2006, Preferred Physicians was authorized to issue 2,000,000 shares of \$1 par value common stock of which 800,000 shares were outstanding for a total of \$800,000 in the Company's common capital stock account.

The Company is 100% owned by PPM Services, Inc. All shareholders of PPM Services, Inc. are also policyholders of Preferred Physicians Medical Risk Retention Group, Inc.

Dividends

No dividends were paid by the Company during the years under examination.

Management

The management of the Company is vested in a Board of Directors elected by the sole shareholder. The Company's Bylaws specify that the Board of Directors shall consist of not less than nine (9) nor more than fifteen (15) persons. The directors of Preferred Physicians elected and serving as of December 31, 2006 were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Thomas W. Laming Overland Park, Kansas	President and Chief Investment Officer TrendStar Advisor, LLC
Joseph Annis, MD Austin, Texas	Physician
Donn A. Chambers, MD Atlanta, Georgia	Physician
Steven A. Lussos, MD Falls Church, Virginia	Physician
Thomas L. Enstrom Topeka, Kansas	Attorney and Management Consultant Enstrom & Associates
Frank X. Fraas Leawood, Kansas	President and Chief Executive Officer Federated Rural Electric Insurance Corp.
Richard A. Kemp, MD Marion, Massachusetts	Physician
Aubrey Maze, MD Phoenix, Arizona	Physician
Edward C. Mills, CPA Tonganoxie, Kansas	President and Chief Executive Officer Preferred Physicians Medical RRG, Inc.
Patrick A. Fantauzzi, MD Albany, NY	Physician
Edward S. Ritter, CPA Olathe, Kansas	President, Chief Executive Officer and Chairman of the Board Generali USA Life Reassurance Company
Jay H. Yedlin, MD Overland Park, Kansas	Physician

Pursuant to the Bylaws, the Board of Directors may designate two or more directors to constitute an executive committee and one or more directors may be designated to constitute any other committee. As of December 31, 2006, the designated committees and members were as follows:

Executive Committee

Aubrey Maze
Jay H. Yedlin
Edward S. Ritter
Edward C. Mills

Investment Committee

Thomas L. Enstrom, Chairman
Thomas W. Laming
Edward C. Mills

Audit, Actuarial and
Compensation Committee

Edward S. Ritter, Chairman
Jay H. Yedlin
Frank X. Fraas

Nominating Committee

Joseph Annis, Chairman
Richard A. Kemp

The Bylaws stipulate that the officers of the Company shall consist of a Chairman of the Board, a President, a Secretary, and such other officers, and other assistant officers as the Board may from time to time elect. The officers elected and serving as of December 31, 2006 were as follows:

<u>Name</u>	<u>Title</u>
Aubrey Maze	Chairman of the Board
Edward C. Mills	President, CEO and Assistant Secretary
Bruce W. Anderson	Vice President-Finance and Treasurer
Brent G. Hodges	Vice President-Underwriting
James F. Johnson	Vice President-Sales
Steve R. Sanford	Vice President-Claims and Secretary

Conflict of Interest

The Company has procedures that require all officers and directors complete a conflict of interest statement annually. Signed statements of officers and directors were reviewed for the period under examination. No material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the period under examination. There were no amendments or changes to the Articles of Incorporation or Bylaws during the examination period.

The minutes of the Company's Board of Directors, sole shareholder and committee meetings were reviewed and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events noted for the period under examination.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

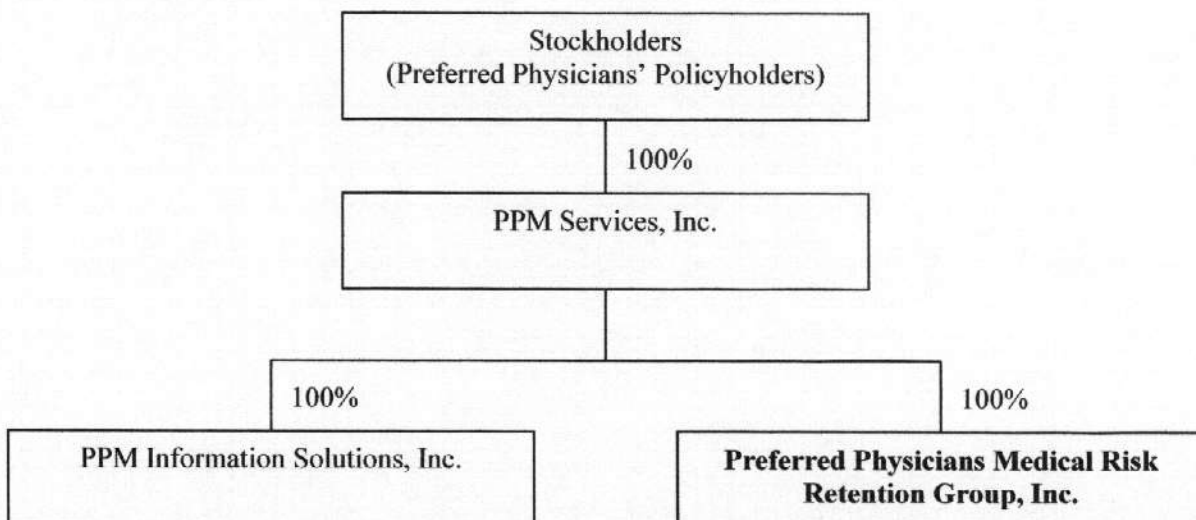
AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

Preferred Physicians Medical Risk Retention Group, Inc. is a member of an Insurance Holding Company System as defined by 382.010 RSMo (Definitions). Preferred Physicians is wholly owned by PPM Services, Inc., which is the ultimate controlling entity within the Company's Holding Company System. All of PPM Services stockholders are also policyholders of Preferred Physicians. No one person holds or owns 10% or more of the voting stock of PPM Services. An Insurance Holding Company System Registration Statement was filed by PPM Services on behalf of Preferred Physicians for each of the years under examination.

PPM Services has one other wholly owned subsidiary, PPM Information Solutions, Inc. (PPM Solutions). PPM Solutions provides information systems and solutions for practicing anesthesiologists.

Organizational Chart

The following organizational chart depicts the holding company system of Preferred Physicians Medical Risk Retention Group, Inc. as of December 31, 2006:



Intercompany Transactions

The Company's significant intercompany agreements as of December 31, 2006 are outlined below.

1. Type: Intercorporate Services and Cost Allocation Agreement

Parties: PPM Services, Preferred Physicians and PPM Information Solutions

Effective: January 1, 2004

Terms: PPM Services shall provide services to Preferred Physicians and to PPM Solutions consisting of executive management consultation and oversight, financial, accounting and tax management and administration, information technology management and administration, computer system administration and human resources administration. In addition, PPM Services shall provide facilities consisting of portions of the premises leased by PPM Services and the utilities serving such premises, portions of the telephone system owned and/or leased by and maintained by PPM Services and portions of the computer and information systems technology management systems owned and/or leased by PPM Services.

The anticipated costs of providing these services and facilities as well as the proportionate share of such costs shall be allocated to Preferred Physicians and PPM Solutions based on an annual budget of anticipated costs including reasonable administrative charges and overhead expenses of PPM Services. This annual budget shall be prepared by PPM Services and submitted to and approved by the respective Board of Directors of the parties at the first meeting of each Board during the calendar year.

Exception: At the March 13, 2005, Board of Directors meeting, a 65/35 allocation of PPM Services budgeted expenses between Preferred Physicians and PPM Solutions was approved. The 65/35 allocation has remained in effect through 2006 and 2007. Although it was noted that the annual budgets for PPM Services were being prepared and approved, the budgets did not contain information as to how the 65/35 allocation was determined. In addition, the Company was unable to provide documentation as to what measures the Board of Directors had taken to ensure that the allocation percentages were reasonable. While the 65% allocation to Preferred Physicians does not appear excessive given the size and operations of the Company compared to PPM Solutions, the Company should ensure that the basis of the allocation is documented and annually reviewed by the Board of Directors.

2. Type: Consolidated Income Tax Agreement

Parties: Preferred Physicians and PPM Services

Effective: March 14, 1996

Terms: PPM Services shall file a consolidated federal income tax return. Preferred Physicians shall compute its separate tax liability as if it had filed a return on a stand-alone basis, and remit to PPM Services its pro-rata share of the total consolidated tax liability.

3. Type: Revenue Collection Agreement

Parties: Preferred Physicians and PPM Services

Effective: January 1, 1999

Terms: Preferred Physicians collects funds for the purchase of PPM Services stock along with premium collections from policyholders. The agreement requires Preferred Physicians to account for the monies attributable to the stock purchase under 'funds held' in its books and records.

The agreement further obligates Preferred Physicians to remit the funds to PPM Services within fifteen days (15) following the end of the month in which the related premium is recorded. The Company does not charge PPM Services any fees for collecting these monies.

The amounts paid to and (received) from parent and affiliates during the period under examination were as follows:

	2006	2005	2004
Intercompany Services and Cost Allocation Agreement			
Paid to PPM Services	\$ 1,625,181	\$ 1,434,411	\$ 959,034
Consolidated Income Tax Agreement			
Paid to PPM Services	3,008,006	490,409	1,000,000
Revenue Collection Agreement			
Paid to PPM Services	724,450	771,250	774,425
Net amount (paid) or received	<u>\$ 5,357,637</u>	<u>\$ 2,696,070</u>	<u>\$ 2,733,459</u>

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a financial institution bond with a liability limit of \$700,000 and a \$25,000 deductible. The fidelity coverage provided under this bond complies with the suggested minimum amount of insurance according to NAIC guidelines.

Preferred Physicians is also a named insured along with PPM Services and PPM Solutions on various other standard insurance policies. These additional policies include, but are not limited to, the following:

Workers Compensation	Business Owners Commercial Package
Directors and Officers Liability	Errors and Omissions
Umbrella Liability	

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Preferred Physicians Medical Risk Retention Group, Inc. provides the following benefits to its employees: major medical, term life and accidental death and dismemberment insurance, educational assistance, paid holidays, paid time off and a Section 125 Plan. The Section 125 Plan allows for contributions toward insurance premium, out-of-pocket medical expenses and dependent care expenses.

The Company also offers a 401(k) Savings Plan to all employees after six months of employment. Under the Plan, the Company will match employee contributions at 50% up to a maximum of 6% of eligible wages. The Company may also make additional discretionary contributions to the Plan. For 2006, the Company matched 125% of employee contributions up to 6% of eligible wages, for 2005, the Company matched 140% up to 5% of eligible wages and for 2004, the Company matched 100% up to 5% of eligible wages. In addition, the Company made discretionary profit sharing contributions of 2% for 2004 based on its operating results.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2006, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo 379.098 (Securities deposits). The funds on deposit as of December 31, 2006 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$1,000,000	\$1,009,400	\$1,008,199

Deposits with Other States

The Company does not maintain statutory deposits with any other states.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Preferred Physicians is licensed under Chapter 379 RSMo (Insurance other than life) to write the business of property and casualty insurance in the State of Missouri.

The Company is authorized as a risk retention group in over forty other states, and actively writes business in 31 states. As of December 31, 2006, approximately 59% of the Company's direct written premiums were concentrated in six states: Arizona, Florida, Illinois, New York, Texas and Virginia.

The Company offers medical malpractice insurance to anesthesiologists exclusively utilizing direct mail and an in-house sales force. The Company also has a field agent in the State of Kentucky and in the State of Florida. The Company's policies are issued primarily on a claims-made basis. Policyholders can also purchase an extended reporting endorsement which provides coverage on an occurrence basis. As of December 31, 2006, approximately 96% of net premiums written were on a claims made basis with the remaining 4% being on an occurrence basis.

As a risk retention group, policyholders of Preferred Physicians are required to purchase stock in the Company's parent, PPM Services, Inc. As of December 31, 2006, Preferred Physicians' policyholders were required to purchase a total of \$3,600 in PPM Services, Inc. stock over a four year period.

Policy Forms and Underwriting
Advertising & Sales Material
Treatment of Policyholders

The DIFP has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. However, Preferred Physicians has not had a market conduct examination performed since its inception.

A cursory review was made of various market conduct related areas of the Company during this examination. No significant problems were noted.

REINSURANCE

General

The Company's reinsurance and premium activity during the period under examination are as follows:

<u>Premiums</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct premiums written	\$ 38,423,997	\$ 36,950,246	\$ 33,922,730
Reinsurance assumed	-	-	-
Reinsurance ceded	(16,003,187)	(15,257,815)	(14,250,477)
Net premiums written	<u>\$ 22,420,810</u>	<u>\$ 21,692,431</u>	<u>\$ 19,672,253</u>

Assumed

The Company does not assume any business.

Ceded

The Company is contingently liable for all reinsurance losses ceded or retroceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Effective January 1, 2006, the Company entered into a reinsurance agreement with the following reinsurers:

Platinum Underwriters Reinsurance, Inc.	35% participation
Transatlantic Reinsurance Company	40% participation
Hannover Ruckversicherungs-Aktiengesellschaft	25% participation

Under the agreement, the reinsurers participate in losses in excess of the Company's retention of \$300,000 per claim up to a loss limit of \$700,000 per claim and \$2.2 million aggregate as respects each insured, each claim. In addition, and as to respects policies with limits greater than \$1 million for New York state insureds, the Company's retention is the first \$1 million with the reinsurers assuming 90% of the amount by which the ultimate net loss exceeds the Company's retention up to a limit of \$1.3 million each insured, each claim. For policies issued to insureds domiciled in the Commonwealth of Virginia with limits greater than \$1 million, the Company's retention is the first \$1 million, with the reinsurers assuming 90% of the amount by which the ultimate net loss exceeds the Company's retention up to a loss limit of \$1 million each insured, each claim.

The agreement requires the Company pay \$11.4 million as an annual deposit premium in four equal installments. The actual premium rate for the term of the agreement will be equal to 100% of the ultimate net loss, plus outstanding loss reserves, plus the minimum rate of 6.25% applied to the net earned premium. The resulting rate will be subject to a maximum rate of 40.25% of net earned premium. For policies with limits in excess of \$1 million in states other than New York, General Reinsurance Corporation provides facultative reinsurance on a risk by risk basis. The Company retains no risk related to these facultative cessions.

The Company entered into a new reinsurance agreement effective January 1, 2007. The new agreement is essentially the same as the prior agreement except for changes in reinsurers and participation amounts as follows.

Ace Property and Casualty Insurance Company	15% participation
Platinum Underwriters Reinsurance, Inc.	15% participation
Transatlantic Reinsurance Company	45% participation
Hannover Ruckversicherungs-Aktiengesellschaft	25% participation

ACCOUNTS AND RECORDS

Independent Auditor

The CPA firm of McGladrey & Pullen LLP, Omaha, Nebraska performed the Company's statutory audit for the year ending December 31, 2006. The Company's statutory audits for the years ending December 31, 2005 and 2004 were performed by the CPA firm of KPMG, LLP, Kansas City, Missouri.

Independent Actuary

The actuarial opinion certifying the Company's reserves as of December 31, 2006, was provided by Donald Skrodenis, FCAS, MAAA, CPCU of PriceWaterhouseCoopers LLP, Chicago, Illinois. The actuarial opinions certifying the Company's reserves as of December 31, 2005 and 2004 were provided by Terrence O'Brien, FCAS, MAAA, CPCU, also of PriceWaterhouseCoopers LLP.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2006. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements." (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets

	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 112,968,545	\$ -	\$ 112,968,545
Common stocks	1,563,964	-	1,563,964
Cash, cash equivalents and short-term investments	12,708,174	-	12,708,174
Other invested assets	5,425,869	-	5,425,869
Investment income due and accrued	1,104,833	-	1,104,833
Amounts recoverable from reinsurers	135,314	-	135,314
Net deferred tax asset	3,002,321	1,533,399	1,468,922
Electronic data processing equipment and software	933	-	933
Furniture and equipment	20,813	20,813	-
Receivables from parent, subsidiaries and affiliates	3,976	-	3,976
Aggregate write-ins for other than invested assets			-
Due from others	448	-	448
Reorganization costs	13,077	13,077	-
Securities interest receivable	2,947	-	2,947
Total Assets	\$ 136,951,214	\$ 1,567,289	\$ 135,383,925

Liabilities, Surplus and Other Funds

Losses	\$ 46,270,264
Loss adjustment expenses	21,443,323
Other expenses	1,108,143
Taxes, licenses and fees (excluding federal income taxes)	334,871
Current federal and foreign income taxes	1,277,170
Unearned premiums	4,712,124
Advance premiums	7,440,791
Ceded reinsurance premiums payable	12,442,361
Amounts withheld or retained on account of others	973,047
Payable to parent, subsidiaries and affiliates	<u>26,867</u>
Total liabilities	\$ 96,028,961
Common capital stock	\$ 800,000
Gross paid in and contributed surplus	13,094,730
Unassigned funds (surplus)	<u>25,460,234</u>
Total Capital and Surplus	\$ 39,354,964
Total Liabilities and Capital and Surplus	<u>\$ 135,383,925</u>

Statement of Income**Underwriting Income**

Premiums earned	\$ 22,059,814
Losses incurred	1,172,137
Loss expenses incurred	9,226,848
Other underwriting expenses incurred	4,028,061
Total under writing deductions	14,427,046
Net underwriting gain/(loss)	7,632,768

Investment Income

Net investment income earned	5,055,044
Net realized capital gains or (losses)	(28,388)
Net investment gain or (loss)	5,026,656

Net income before dividends to policyholders and federal income taxes	\$ 12,659,424
Federal and foreign income taxes incurred	3,791,794

Net Income	\$ 8,867,630
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Capital and Surplus Account

Capital and surplus, December 31, 2005	\$ 29,615,139
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Net income	\$ 8,867,630
Change in unrealized capital gains	739,933
Change in net deferred income tax	(225,275)
Change in nonadmitted assets	357,536

Net change in capital and surplus for the year	9,739,824
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Capital and surplus, December 31, 2006	\$ 39,354,963
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NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Transactions (Page7)

At the March 13, 2005, Board of Directors meeting, a 65/35 allocation of PPM Services budgeted expenses between Preferred Physicians and PPM Solutions was approved. The 65/35 allocation has remained in effect through 2006 and 2007. Although it was noted that the annual budgets for PPM Services were being prepared and approved, the budgets did not contain information as to how the 65/35 allocation was determined. In addition, the Company was unable to provide documentation as to what measures the Board of Directors had taken to ensure that the allocation percentages were reasonable. While the 65% allocation to Preferred Physicians does not appear excessive given the size and operations of the Company compared to PPM Solutions, the Company should ensure that the basis of the allocation is documented and annually reviewed by the Board of Directors.

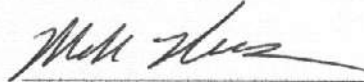
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Preferred Physicians Medical Risk Retention Group, Inc. during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, CFE, CPA, Alvin Garon, CFE, and Angela Campbell, CFE examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration participated in this examination. The actuarial firm of Lewis and Ellis, Inc. of Overland Park, Kansas also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
 County of)

I, Mark Nance, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

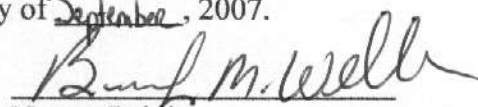


Mark Nance, CPA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Regulation and Professional Registration

Sworn to and subscribed before me this 21st day of September, 2007.

My commission expires:

03/17/2008


 Notary Public

BEVERLY M. WEBB
 Notary Public • Notary Seal
 STATE OF MISSOURI
 Clay County
 My Commission Expires March 17, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Frederick G. Heese, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Regulation and Professional Registration



November 14, 2007

CERTIFIED MAIL

Mr. Frederick G. Heese
Chief Financial Examiner & Acting Division Director
Missouri Department of Insurance
Financial Institutions and Professional Registration
PO Box 690
Jefferson City, Missouri 65102-0690

RE: Response to General Comments and/or Recommendations in the Report of
Association Financial Examination of Preferred Physicians Medical Risk Retention
Group, Inc. as of December 31, 2006

Dear Mr. Heese:

I want to thank you and acknowledge your letter of October 18, 2007, and the accompanying draft of the Examination Report of Preferred Physicians Medical. We also would like to take this opportunity to express our appreciation of the professional manner in which this examination was conducted by your staff.

We would like to offer the following response to the General Comments and/or Recommendations section of the Examination Report for inclusion therein.

Intercompany Transactions (Page 16)

At the March 13, 2005, Board of Directors meeting, a 65/35 allocation of PPM Services budgeted expenses between Preferred Physicians and PPM Solutions was approved. The 65/35 allocation has remained in effect through 2006 and 2007. Although it was noted that the annual budgets for PPM Services were being prepared and approved, the budgets did not contain information as to how the 65/35 allocation was determined. In addition, the Company was unable to provide documentation as to what measures the Board of Directors had taken to ensure that the allocation percentages were reasonable. While the 65% allocation of Preferred Physicians does not appear excessive given the size and operations of the Company compared to PPM Solutions, the Company should ensure that the basis of the allocation is documented and annually reviewed by the Board of Directors.

In the future, as the annual budgets for PPM Services and Preferred Physicians are being prepared and approved, documentation will be provided as to administrative fees charged to the subsidiaries.

PREFERRED PHYSICIANS MEDICAL RISK RETENTION GROUP, INC.

THE ANESTHESIA SPECIALISTS

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We appreciate your constructive comments regarding our operations and for the opportunity to respond. We look forward to receiving the Final Examination Report for distribution to and approval by our Board of Directors.

Sincerely,

A handwritten signature in cursive script that reads "Edward C. Mills".

Edward C. Mills
President and CEO

ECM/nk